GTE Service Corporation
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Washington, DC 20036
202 463-5200

July 28, 1997

Mr. William F. Caton, Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, DC 20554

RE: Proposed Refund Plan for Expanded Interconnection Through Physical Collocation - CC Docket No. 93-162

Dear Mr. Caton,

GTE Service Corporation, on behalf of GTE Southwest, Inc. (Texas), submits a proposed refund plan in compliance with the Commission's Second Report and Order, *In the Matter of Local Exchange Carrier's Rates, Terms and Conditions for Expanded Interconnection Through Physical Collocation for Special Access and Switched Transport*, CC Docket No. 93-162, FCC 97-208, released June 13, 1997 ("*Second R&O*").

Attached to this letter is a description of GTE's refund calculation based on disallowed costs reflected in rates charged to customers between December 15, 1994 and the date that GTE discontinued the provision of physical collocation service. This calculation results in a refund of $1,929.34 (including interest) to only one customer who received physical collocation services at GTE's Plano-Main (Texas) central office. GTE plans to issue this refund directly to the customer after its refund plan is approved by the Commission.

Please call me at (202) 463-5293 if there are any questions concerning this filing.

Sincerely,

W. Scott Randolph
Director - Regulatory Matters

Attachment

c: Jim Schlicting
Paul D'Ari
ITS

GTE REFUND PLAN FOR EXPANDED INTERCONNECTION THROUGH PHYSICAL COLLOCATION - DOCKET CC 93-162

GTE proposes the following refund plan in compliance with the Commission's Second Report and Order, *In the Matter of Local Exchange Carrier's Rates, Terms and Conditions for Expanded Interconnection Through Physical Collocation for Special Access and Switched Transport*, CC Docket No. 93-162, FCC 97-208, released June 13, 1997 ("*Second R&O*").

The *Second R&O* (at ¶438) directs GTE to refund, with simple interest, the difference between the rates that result from the cost disallowance identified in Appendices C and D of the *Second R&O* and the rates charged to those customers that subscribed to physical collocation services between December 15, 1994 and the date that GTE discontinued providing physical collocation service.

GTE is also directed to recalculate its rates to reflect the deductibility of interest and state income taxes in its computation of federal income tax. However, as shown below, GTE calculates federal income taxes for pricing purposes in accordance with the method set forth in the *Second Report and Order* (at ¶85). Therefore, no rate adjustments or refunds are required.

GTE Southwest, Inc. (Texas) had only one customer that received physical collocation services beyond December 15, 1994. Metropolitan Fiber Systems (MFS) received physical collocation at Plano-Main, TX through July 1995. GTE converted the physical arrangement to a virtual arrangement at the end of July and began billing the virtual rate elements in August of 1995. The number of billable months affected was seven and one-half.

REFUND ANALYSIS

1. Calculating New Rates to Reflect Statistical Disallowances (*Second R&O*, Appendix C):

   GTOC - Texas, Plano-Main: Security Installation Direct Cost Disallowance.
   Total Disallowance per month: $74.61

   GTOC - DC Power Direct Cost Disallowance.
   Total Disallowance per month: $125.90

   Total Disallowance = $200.51 per month
   $1,503.83 total for 7 1/2 months

2. LECs' Comparable DS1 and DS3 Service Lowest Overhead Loading Factors (*Second R&O*, Appendix D):

For all physical collocation rate elements, GTE is ordered to recalculate its rates and to pay refunds based on the difference between the maximum permitted overhead loading factor and the higher overhead loading factor reflected in the rates actually charged to their interconnector-customers (*Seond R&O* at ¶313).

Attachment 1 provides an analysis of GTE's collocation rate elements and associated overheads. There were two rate elements (partition space and cable space) that exceeded the DS1 and DS3 factor. The analysis shows that the total monthly reduction by applying the comparable overhead factors equals $36.80.

Total Reduction = $36.80 per month
$276.00 total for 7 1/2 months

3. GTE's Income Tax Calculations

The *Second R&O* (at ¶84) orders GTE to recalculate its rates to comply with the requirements for computing federal and state income taxes. The *Second R&O* asserts that by applying the federal and income tax factors to the entire amount of the dollar return on investment, GTE assumes that the entire return accrues to equityholders. Further, because GTE is financed with a mixture of debt and equity capital and by applying the federal and the state income tax factors to the entire return, the *Second R&O* concludes that GTE overestimates its tax liability. GTE is also ordered to recalculate its rates to account for the deductibility of state income taxes in the computation of federal income taxes.

GTE did not miscalculate income taxes as suggested in the *Second R&O*. Attachment 2 ("Depreciation, Return, and Taxes Reconciliation") provides detailed information showing the tax calculation performed in GTE's pricing model for the following monthly rate elements for the Plano-Main, Texas central office: Partition Space, Office Arrangement (element used to calculate dc power), cable space, DS3 cross-connect, and DS1 cross-connect.

Page 1 of each section shows the Total Annual Cost as displayed in the Investment and Cost Data Summary submitted in GTE's original tariff filings. This annual cost equals the depreciation, return, and taxes as computed within GTE's cost model. The Present Worth of Capital, Initial Administration Overheads and FIT/SIT shown on the subsequent pages indicate that the model is correct in applying the tax calculation. Line 5 of

page 2 (FTX1 factor), within each rate element section, shows that GTE takes into account the deductibility of interest in computing federal and state income taxes. Furthermore, since Texas does not have a state income tax, the deductibility of state income taxes is in computing rates for Plano-Main is not applicable. However, the Composite Income Tax Rate formula [(1- SIT rate) * FIT rate + SIT rate] in GTE's pricing model would correctly apply a state income if one existed. The cost model detail shown in Attachment 2 was also used in calculating GTE's virtual collocation rates within the existing virtual tariff.

In summary, GTE did not overestimate its tax liability; therefore, no rate adjustment is required based on GTE's income tax calculation.

4. Simple Interest Calculation:

Attachment 3 provides the simple interest calculation from December 1994 through July 1995. The interest rate is based on the IRS quarterly rate. The monthly charge applied to the interest rate is the sum of the Appendix C and Appendix D calculation = $237.31. The analysis shows that GTE should refund MFS $149.51 of interest.

5. TOTAL REFUND: GTE is required to refund MFS a base of $1,779.83, with interest the total refund amount is $1,929.34.

Attachment 1

APPENDIX D: LECs' Comparible DS1 and DS3 Service Lowest Overhead Loading Factors

GTE Analysis:	Rate per Unit (A)	Direct Unit Cost (B)	Rate per Unit / Direct Cost C=(A/B)	Overhead Recovery D=(A-B)	% Overhead Recovery E=(D/B)
Texas - Comparable DS1 & DS3 Services					
1 DS1 Sal 1st system, 5 yr OPP	$175.00	$129.85	134.77%	$45.15	34.77%
1 DS3 x 24 system SAL Electrical - 7 yr	$7,800.00	$5,359.63	145.53%	$2,440.37	45.53%
Combined factor (average) *	$7,975.00	$5,489.48	145.28%	$2,485.52	45.28%

Note *: Combined factor used in comparison with collocation rate elements that are not specific to a DS1 or DS3 service.

Texas - Collocation Rate Elements - Plano Main						Analysis of rate elements that exceed combined factor: Overhead Factor [if (E) > (F)] (F)	Revised Rate Calculation G=C*(1+F)	Monthly Reduction Amount H=(G-A)
Monthly recurring cost support:								
Partition Space- per 100 sqft	$358.00	$222.00	161.26%	$136.00	61.26%	45.28%	$322.52	($35.48)
dc Power - per 100 sqft								
material/labor costs	$439.06	$439.06						
utility expense	$290.00	$290.00						
total dc Power	$729.06	$729.06	100.00%	$0.00	0.00%			n/a
Cable Space	$15.55	$9.80	158.67%	$5.75	58.67%	45.28%	$14.24	($1.31)
DS1 Cross-Connect	$2.85	$2.33	122.32%	$0.52	22.32%			n/a
DS3 Cross-Connect	$25.20	$20.57	122.51%	$4.63	22.51%			n/a
Non-recurring cost support								
Engineering Fee	$7,817.00	$7,817.00	100.00%	$0.00	0.00%			n/a
Building Modification	$22,066.00	$22,066.00	100.00%	$0.00	0.00%			n/a
Office Arrangement	$6,549.00	$6,549.00	100.00%	$0.00	0.00%			n/a
Cable Pull	$1,027.00	$1,027.00	100.00%	$0.00	0.00%			n/a
Total Monthly Reduction Amount:								($36.80)

DEPRECIATION, RETURN AND TAXES RECONCILIATION

SERVICE: EXPANDED INTERCONNECTION
RATE ELEMENT: PARTITION SPACE
CENTRAL OFFICE: PLANO-MAIN, TEXAS

V. Total Annual Cost (Taken from Investment and Cost Data Summary)

20. *Circuit Equipment Depreciation*	$0.00
21. Outside Plant Depreciation	0.00
22. Central Office Depreciation	5.61
23. Return	9.49
24. Federal and State Income Tax	4.89
25. Annual Nonrecoverable Cost	2.27
Sum of Depreciation, Return, and Taxes	$22.26

Depreciation, Return, and Taxes (Cost Model Calculation)

1. Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$174.41
2. Selected NRC with Gross Receipts Tax Removed	0.00
3. Difference = Present Value	$174.41
4. i = Cost of Money	11.25%
5. n = Revenue Life in Years	20
6. Annual PMT = Annual Amount	$22.26

Present Worth of Capital, Initial Administration Overheads , and FIT/SIT

IV. Net Investment (Taken from Investment and Cost Data Summary)

19. Total Net Investment	$167.55
FTX3 (Total Federal and State Income Taxes—Page 4 of 4)	6.86
Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$174.41

FTX1 (Basic Tax Liability)

1.	Composite Income Tax Rate (FIT & SIT)	34.00%
2.	Fraction of Debt	39.44%
3.	Debt Rate	9.81%
4.	Cost of Money (ROI)	11.25%
5.	FTX1 Factor (Ln1/(1 - Ln1))(1 - ((Ln 2)(Ln 3)/Ln 4))	0.33798225

Salvage

I. Cost and Salvage Value of Equipment and Buildings (Taken from Investment and Cost Data Summary)

4.	Total Material and Building Cost	$168.15
	Salvage Factor	3.00%
	Salvage	$5.04
	Removal	$0.00

Total Investment

II. Installation Cost (Taken from Investment and Cost Data Summary)

15.	Total Installed Cost	$168.15

Present Value of Book Depreciation

PMT = (Total Investment - Salvage + Removal) / Book Life	
= ($168.15 - $5.04 + $.00) / 20 years	$8.16
i = Cost of Money	11.25%
n = Book Life in Years	20
PV = Present Value	$63.90

Net Investment

IV. Net Investment (Taken from Investment and Cost Data Summary)

19.	Total Net Investment	$167.55

FTX1 (Basic Tax Liability)

(Net Investment - Present Value of Book Depreciation)(FTX1 Factor)	
(($167.55 - $63.90) * .33798225)	$35.03

FTX2 (Accelerated Tax Depreciation, Normalization of Tax Derferral, Book/Tax Basis)

1.	Composite Income Tax Rate (FIT & SIT)	34.00%
2.	FTX1 Factor	0.33798225
3.	(-Ln 1)(1 + Ln 2)	(0.45491397)
4.	(Ln 1) / (1 - Ln 1)	0.51515152
5.	Tax Basis = Total Installed Cost	$168.15

Present Value of Book Depreciation - Tax Depreciation

PMT = (Tax Basis - Salvage + Removal)/Book Life	
= ($168.15 - $5.04 + $.00) / 20 years	$8.16
i = Cost of Money	11.25%
n = Book Life in Years	20
PV = Present Value	$63.90

5 Year ACRS Year	Rate	Present Value	Present Value * Rate
1=Half Year	0.2000	0.898876	0.17977528
2	0.3200	0.807979	0.25855321
3	0.1920	0.726273	0.13944443
4	0.1152	0.652830	0.07520598
5	0.1152	0.586813	0.06760088
6=Half Year	0.0576	0.527473	0.03038242
5 Year ACRS Factor			0.75096221

Present Value of Tax Depreciation

(5 Year ACRS Factor)(Tax Basis)	
0.75096221 * $168.15	$126.27

FTX2 (Accelerated Tax Depreciation, Normalization of Tax Derferral, Book/Tax Basis)

(Ln 3)((Present Value of Tax Depreciation - (Present Value of Book - Tax Depreciation)) -
((Ln 4)(-(Present Value of Book Depreciation - (Present Value of Book - Tax Depreciation))

(-.45491397 * ($126.27 - $63.90)) - (.51515152 * (- ($63.90 - $63.90)) ($28.38)

FTX3(Total Federal and State Income Taxes)

I. Cost and Salvage Value of Equipment and Buildings (Taken from Investment and Cost Data Summary)

5. Net Salvage Value (Including Cost of Removal) $0.60

FTX3 (Total Federal and State Income Taxes)
(FTX1 + FTX2)+((Composite FIT & SIT)(Net Salvage Value))
($35.03 - $28.38) + ((0.34 * $.60)) $6.86

DEPRECIATION, RETURN AND TAXES RECONCILIATION

SERVICE: EXPANDED INTERCONNECTION
RATE ELEMENT: OFFICE ARRANGEMENT
CENTRAL OFFICE: ALL CENTRAL OFFICES IN TEXAS

V.	Total Annual Cost (Taken from Investment and Cost Data Summary)	
14.	Cage Structure Depreciation	$140.27
15.	Cage Power Equipment Depreciation	1,328.84
16.	Return	1,466.45
17.	Federal and State Income Tax	755.37
18.	Annual Nonrecoverable Cost	(716.48)
	Sum of Depreciation, Return, and Taxes	$2,974.45

Depreciation, Return, and Taxes (Cost Model Calculation)

1.	Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$29,853.44
2.	Selected NRC with Gross Receipts Tax Removed	6,549.00
3.	Difference = Present Value	$23,304.44
4.	i = Cost of Money	11.25%
5.	n = Revenue Life in Years	20
6.	Annual PMT = Annual Amount	$2,974.45

Present Worth of Capital, Initial Administration Overheads , and FIT/SIT

IV.	Net Investment (Taken from Investment and Cost Data Summary)	
13.	Total Net Investment	$25,931.80
	FTX3 (Total Federal and State Income Taxes---Page 4 of 4)	3,921.64
	Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$29,853.44

FTX1 (Basic Tax Liability)

1.	Composite Income Tax Rate (FIT & SIT)	34.00%
2.	Fraction of Debt	39.44%
3.	Debt Rate	9.81%
4.	Cost of Money (ROI)	11.25%
5.	FTX1 Factor (Ln1/(1 - Ln1))(1 - ((Ln 2)(Ln 3)/Ln 4))	0.33798225

Salvage

I. Cost and Salvage Value of Equipment and Buildings (Taken from Investment and Cost Data Summary)

1.	Cage Structure Material	$3,191.00
	Salvage Factor	3.00%
	Salvage	$95.73
	Cage Structure Removal	$0.00
2.	Cage Power Equipment Material	$16,261.00
	Salvage Factor	3.00%
	Salvage	$487.83
	Cage Power Equipment Removal	$0.00

Total Investment

II. Installation Cost (Taken from Investment and Cost Data Summary)

1&6	Cage Structure Material, Engr, and Install. Labor	$4,208.00
2&7	Cage Power Equipment Material, Engr, and Install. Labor	21,793.00
9.	Total Installed Cost	$26,001.00

Present Value of Book Depreciation (Cage Structure)

PMT = (Total Investment - Salvage + Removal) / Book Life = ($4,208.00 - $95.73 + $.00) / 20 years	$205.61
i = Cost of Money	11.25%
n = Book Life in Years	20
PV = Present Value	$1,610.96

Present Value of Book Depreciation (Cage Power Equipment)

PMT = (Total Investment - Salvage + Removal) / Book Life = ($21,793.00 - $487.83 + $.00) / 15 years	$1,420.34
i = Cost of Money	11.25%
n = Book Life in Years	15
PV = Present Value	$10,074.11

Net Investment

IV. Net Investment (Taken from Investment and Cost Data Summary)

13.	Total Net Investment	$25,931.80

FTX1 (Basic Tax Liability)

(Net Investment - Present Value of Book Depreciation)(FTX1 Factor)	
(($25,931.80 - ($1,610.96 + $10,074.11) * .33798225)	$4,815.14

FTX2 (Accelerated Tax Depreciation, Normalization of Tax Derferral, Book/Tax Basis)

1.	Composite Income Tax Rate (FIT & SIT)	34.00%
2.	FTX1 Factor	0.33798225
3.	(-Ln 1)(1 + Ln 2)	(0.45491397)
4.	(Ln 1) / (1 - Ln 1)	0.51515152
5.	Tax Basis = Cage Structure Material, Engr, and Install. Labor	$4,208.00
6.	Tax Basis = Cage Power Equipment Material, Engr, and Install. Labor	$21,793.00
	Tax Basis = Total Installed Cost	$26,001.00

Present Value of Book Depreciation - Tax Depreciation (Cage Structure)

PMT = (Total Investment - Salvage + Removal) / Book Life	
= ($4,208.00 - $95.73 + $.00) / 20 years	$205.61
i = Cost of Money	11.25%
n = Book Life in Years	20
PV = Present Value	$1,610.96

Present Value of Book Depreciation - Tax Depreciation (Cage Power Equipment)

PMT = (Total Investment - Salvage + Removal) / Book Life	
= ($21,793.00 - $487.83 + $.00) / 15 years	$1,420.34
i = Cost of Money	11.25%
n = Book Life in Years	15
PV = Present Value	$10,074.11

5 Year ACRS Year	Rate	Present Value	Present Value * Rate
1=Half Year	0.2000	0.898876	0.17977528
2	0.3200	0.807979	0.25855321
3	0.1920	0.726273	0.13944443
4	0.1152	0.652830	0.07520598
5	0.1152	0.586813	0.06760088
6=Half Year	0.0576	0.527473	0.03038242
5 Year ACRS Factor			0.75096221

Present Value of Tax Depreciation (Cage Structure)

(5 Year ACRS Factor)(Tax Basis)	
0.75096221 * $4,208.00	$3,160.05

15 Year ACRS Year	Rate	Present Value	Present Value * Rate
1=Half Year	0.0500	0.898876	0.04494382
2	0.0950	0.807979	0.07675799
3	0.0855	0.726273	0.06209635
4	0.0770	0.652830	0.05026789
5	0.0693	0.586813	0.04066616
6	0.0623	0.527473	0.03286154
7	0.0590	0.474133	0.02797383
8	0.0590	0.426187	0.02514501
9	0.0590	0.383089	0.02260226
10	0.0590	0.344350	0.02031664
11	0.0590	0.309528	0.01826215
12	0.0590	0.278227	0.01641541
13	0.0590	0.250092	0.01475543
14	0.0590	0.224802	0.01326330
15	0.0590	0.202069	0.01192207
16=Half Year	0.0299	0.181635	0.00543089
15 Year ACRS Factor			0.48368072

Present Value of Tax Depreciation (Cage Power Equipment)
(15 Year ACRS Factor)(Tax Basis)
0.48368072 * $21,793.00 $10,540.85

FTX2 (Accelerated Tax Depreciation, Normalization of Tax Derferral, Book/Tax Basis)
(Ln 3)((Present Value of Tax Depreciation - (Present Value of Book - Tax Depreciation)) -
((Ln 4)(-(Present Value of Book Depreciation - (Present Value of Book - Tax Depreciation))
(-.45491397 * (($3,160.05+$10,540.85)) - ($1,610.95+$10,074.11)) -
(.51515152 * (- (($1,610.95+$10,074.11) - ($1,610.95+$10,074.11))) ($917.03)

FTX3(Total Federal and State Income Taxes)

I. Cost and Salvage Value of Equipment and Buildings (Taken from Investment and Cost Data Summary)

4. Net Salvage Value (Including Cost of Removal) $69.20

FTX3 (Total Federal and State Income Taxes)
(FTX1 + FTX2)+((Composite FIT & SIT)(Net Salvage Value))
($4,815.14 - $917.03) + ((0.34 * $69.20)) $3,921.64

DEPRECIATION, RETURN AND TAXES RECONCILIATION

SERVICE: EXPANDED INTERCONNECTION
RATE ELEMENT: CABLE SPACE
CENTRAL OFFICE: PLANO - MAIN, TEXAS

V.	Total Annual Cost (Taken from Investment and Cost Data Summary)	
16.	Conduit and Manhole Depreciation	$8.16
17.	Cable Vault Depreciation	8.71
18.	Return	38.12
19.	Federal and State Income Tax	19.64
20.	Annual Nonrecoverable Cost	21.85
	Sum of Depreciation, Return, and Taxes	$96.48

Depreciation, Return, and Taxes (Cost Model Calculation)

1.	Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$755.87
2.	Selected NRC with Gross Receipts Tax Removed	0.00
3.	Difference = Present Value	$755.87
4.	i = Cost of Money	11.25%
5.	n = Revenue Life in Years	20
6.	Annual PMT = Annual Amount	$96.47

Present Worth of Capital, Initial Administration Overheads , and FIT/SIT

IV.	Net Investment (Taken from Investment and Cost Data Summary)	
15.	Total Net Investment	$676.88
	FTX3 (Total Federal and State Income Taxes—Page 4 of 4)	78.99
	Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$755.87

	FTX1 (Basic Tax Liability)	
1.	Composite Income Tax Rate (FIT & SIT)	34.00%
2.	Fraction of Debt	39.44%
3.	Debt Rate	9.81%
4.	Cost of Money (ROI)	11.25%
5.	FTX1 Factor (Ln1/(1 - Ln1))(1 - ((Ln 2)(Ln 3)/Ln 4))	0.33798225
	Salvage	
I.	Cost and Salvage Value of Equipment and Buildings (Taken from Investment and Cost Data Summary)	
2.	Conduit and Manhole Material	$24.95
	Salvage Factor	3.00%
	Salvage	$0.75
	Conduit and Manhole Removal	$0.00
3.	Cable Vault Space Material	$94.57
	Salvage Factor	3.00%
	Salvage	$2.84
	Cable Vault Space Removal	$0.00
	Total Investment	
II.	Installation Cost (Taken from Investment and Cost Data Summary)	
2&8	Conduit and Manhole Material, Engr, and Install. Labor	$416.07
3&9	Cable Vault Space Material, Engr, and Install. Labor	261.24
11.	Total Installed Cost	$677.31
	Present Value of Book Depreciation (Conduit and Manhole)	
	PMT = (Total Investment - Salvage + Removal) / Book Life	
	= ($416.07 - $.75 + $.00) / 20 years	$20.77
	i = Cost of Money	11.25%
	n = Book Life in Years	20
	PV = Present Value	$162.70
	Present Value of Book Depreciation (Cable Vault Space)	
	PMT = (Total Investment - Salvage + Removal) / Book Life	
	= ($261.24 - $2.84 + $.00) / 20 years	$12.92
	i = Cost of Money	11.25%
	n = Book Life in Years	20
	PV = Present Value	$101.23
	Net Investment	
IV.	Net Investment (Taken from Investment and Cost Data Summary)	
15.	Total Net Investment	$676.88
	FTX1 (Basic Tax Liability)	
	(Net Investment - Present Value of Book Depreciation)(FTX1 Factor)	
	(($676.88 - ($162.70 + $101.23) * .33798225)	$139.57

FTX2 (Accelerated Tax Depreciation, Normalization of Tax Derferral, Book/Tax Basis)

1.	Composite Income Tax Rate (FIT & SIT)	34.00%
2.	FTX1 Factor	0.33798225
3.	(-Ln 1)(1 + Ln 2)	(0.45491397)
4.	(Ln 1) / (1 - Ln 1)	0.51515152
5.	Tax Basis = Conduit and Manhole Material, Engr, and Install. Labor	$416.07
6.	Tax Basis = Cable Vault Space Material, Engr, and Install. Labor	$261.24
	Tax Basis = Total Installed Cost	$677.31

Present Value of Book Depreciation - Tax Depreciation (Conduit and Manhole)

PMT = (Total Investment - Salvage + Removal) / Book Life	
= ($416.07 - $.75 + $.00) / 20 years	$20.77
i = Cost of Money	11.25%
n = Book Life in Years	20
PV = Present Value	$162.70

Present Value of Book Depreciation - Tax Depreciation (Cable Vault Space)

PMT = (Total Investment - Salvage + Removal) / Book Life	
= ($261.24 - $2.84 + $.00) / 20 years	$12.92
i = Cost of Money	11.25%
n = Book Life in Years	20
PV = Present Value	$101.23

5 Year ACRS Year	Rate	Present Value	Present Value * Rate
1=Half Year	0.2000	0.898876	0.17977528
2	0.3200	0.807979	0.25855321
3	0.1920	0.726273	0.13944443
4	0.1152	0.652830	0.07520598
5	0.1152	0.586813	0.06760088
6=Half Year	0.0576	0.527473	0.03038242
5 Year ACRS Factor			0.75096221

Present Value of Tax Depreciation (Cable Vault Space)

(5 Year ACRS Factor)(Tax Basis)	
0.75096221 * $261.24	$196.18

15 Year ACRS Year	Rate	Present Value	Present Value * Rate
1=Half Year	0.0500	0.898876	0.04494382
2	0.0950	0.807979	0.07675799
3	0.0855	0.726273	0.06209635
4	0.0770	0.652830	0.05026789
5	0.0693	0.586813	0.04066616
6	0.0623	0.527473	0.03286154
7	0.0590	0.474133	0.02797383
8	0.0590	0.426187	0.02514501
9	0.0590	0.383089	0.02260226
10	0.0590	0.344350	0.02031664
11	0.0590	0.309528	0.01826215
12	0.0590	0.278227	0.01641541
13	0.0590	0.250092	0.01475543
14	0.0590	0.224802	0.01326330
15	0.0590	0.202069	0.01192207
16=Half Year	0.0299	0.181635	0.00543089
15 Year ACRS Factor			0.48368072

Present Value of Tax Depreciation (Conduit and Manhole)
(15 Year ACRS Factor)(Tax Basis)
0.48368072 * $416.07 $201.25

FTX2 (Accelerated Tax Depreciation, Normalization of Tax Derferral, Book/Tax Basis)
(Ln 3)((Present Value of Tax Depreciation - (Present Value of Book - Tax Depreciation)) -
((Ln 4)(-(Present Value of Book Depreciation - (Present Value of Book - Tax Depreciation))
(-.45491397 * (($196.18+$201.25)) - ($162.70+$101.23)) -
(.51515152 * (- (($162.70+$101.23) - ($162.70+$101.23))) ($60.73)

FTX3(Total Federal and State Income Taxes)

I. Cost and Salvage Value of Equipment and Buildings (Taken from Investment and Cost Data Summary)

5. Net Salvage Value (Including Cost of Removal) $0.43

FTX3 (Total Federal and State Income Taxes)
(FTX1 + FTX2)+((Composite FIT & SIT)(Net Salvage Value))
($139.57 - $60.73) + ((0.34 * $.43)) $78.99

DEPRECIATION, RETURN AND TAXES RECONCILIATION

SERVICE: EXPANDED INTERCONNECTION
RATE ELEMENT: DS3 CROSS CONNECT
CENTRAL OFFICE: TEXAS -- ALL CENTRAL OFFICES

V. Total Annual Cost (Taken from Investment and Cost Data Summary)	
17. Circuit Equipment Depreciation	$92.04
18. Outside Plant Depreciation	0.00
19. Return	49.75
20. Federal and State Income Tax	25.62
21. Annual Nonrecoverable Cost	31.09
Sum of Depreciation, Return, and Taxes	$198.50

Depreciation, Return, and Taxes (Cost Model Calculation)

1. Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$927.85
2. Selected NRC with Gross Receipts Tax Removed	0.00
3. Difference = Present Value	$927.85
4. i = Cost of Money	11.25%
5. n = Revenue Life in Years	7
6. Annual PMT = Annual Amount	$198.50

Present Worth of Capital, Initial Administration Overheads , and FIT/SIT

IV. Net Investment (Taken from Investment and Cost Data Summary)	
16. Total Net Investment	$864.38
FTX3 (Total Federal and State Income Taxes---Page 4 of 4)	63.47
Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$927.85

FTX1 (Basic Tax Liability)

1.	Composite Income Tax Rate (FIT & SIT)	34.00%
2.	Fraction of Debt	39.44%
3.	Debt Rate	9.81%
4.	Cost of Money (ROI)	11.25%
5.	FTX1 Factor (Ln1/(1 - Ln1))(1 - ((Ln 2)(Ln 3)/Ln 4))	0.33798225

Salvage

I. Cost and Salvage Value of Equipment and Buildings (Taken from Investment and Cost Data Summary)

3.	Total Material Cost	$702.17
	Salvage Factor	3.00%
	Salvage	$21.07
	Removal	$0.00

Total Investment

II. Installation Cost (Taken from Investment and Cost Data Summary)

12.	Total Installed Cost	$874.37

Present Value of Book Depreciation

PMT = (Total Investment - Salvage + Removal) / Book Life	
= ($874.37 - $21.07 + $.00) / 7 years	$121.90
i = Cost of Money	11.25%
n = Book Life in Years	7
PV = Present Value	$569.81

Net Investment

IV. Net Investment (Taken from Investment and Cost Data Summary)

16.	Total Net Investment	$864.38

FTX1 (Basic Tax Liability)

(Net Investment - Present Value of Book Depreciation)(FTX1 Factor)	
(($864.38 - $569.81) * .33798225)	$99.56

FTX2 (Accelerated Tax Depreciation, Normalization of Tax Derferral, Book/Tax Basis)

1.	Composite Income Tax Rate (FIT & SIT)	34.00%
2.	FTX1 Factor	0.33798225
3.	(-Ln 1)(1 + Ln 2)	(0.45491397)
4.	(Ln 1) / (1 - Ln 1)	0.51515152
5.	Tax Basis = Total Installed Cost	$874.37

Present Value of Book Depreciation - Tax Depreciation

PMT = (Tax Basis - Salvage + Removal)/Book Life	
= ($874.37 - $21.07 + $.00) / 7 years	$121.90
i = Cost of Money	11.25%
n = Book Life in Years	7
PV = Present Value	$569.81

5 Year ACRS Year	Rate	Present Value	Present Value * Rate
1=Half Year	0.2000	0.898876	0.17977528
2	0.3200	0.807979	0.25855321
3	0.1920	0.726273	0.13944443
4	0.1152	0.652830	0.07520598
5	0.1152	0.586813	0.06760088
6=Half Year	0.0576	0.527473	0.03038242
5 Year ACRS Factor			0.75096221

Present Value of Tax Depreciation

(5 Year ACRS Factor)(Tax Basis)	
0.75096221 * $874.37	$656.62

FTX2 (Accelerated Tax Depreciation, Normalization of Tax Derferral, Book/Tax Basis)

(Ln 3)((Present Value of Tax Depreciation - (Present Value of Book - Tax Depreciation)) -
((Ln 4)(-(Present Value of Book Depreciation - (Present Value of Book - Tax Depreciation))

(-.45491397 * ($656.62 - $569.81)) - (.51515152 * (- ($569.81 - $569.81) ($39.49)

FTX3(Total Federal and State Income Taxes)

I. Cost and Salvage Value of Equipment and Buildings (Taken from Investment and Cost Data Summary)

4. Net Salvage Value (Including Cost of Removal) $9.99

FTX3 (Total Federal and State Income Taxes)
(FTX1 + FTX2)+((Composite FIT & SIT)(Net Salvage Value))
($99.56 - $39.49) + ((0.34 * $9.99)) $63.47

DEPRECIATION, RETURN AND TAXES RECONCILIATION

SERVICE: EXPANDED INTERCONNECTION
RATE ELEMENT: DS1 CROSS CONNECT
CENTRAL OFFICE: TEXAS -- ALL CENTRAL OFFICES

V. Total Annual Cost (Taken from Investment and Cost Data Summary)	
17. Circuit Equipment Depreciation	$10.38
18. Outside Plant Depreciation	0.00
19. Return	5.59
20. Federal and State Income Tax	2.88
21. Annual Nonrecoverable Cost	3.66
Sum of Depreciation, Return, and Taxes	$22.51

Depreciation, Return, and Taxes (Cost Model Calculation)

1. Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$105.20
2. Selected NRC with Gross Receipts Tax Removed	0.00
3. Difference = Present Value	$105.20
4. i = Cost of Money	11.25%
5. n = Revenue Life in Years	7
6. Annual PMT = Annual Amount	$22.51

Present Worth of Capital, Initial Administration Overheads , and FIT/SIT

IV. Net Investment (Taken from Investment and Cost Data Summary)	
16. Total Net Investment	$97.97
FTX3 (Total Federal and State Income Taxes—Page 4 of 4)	7.23
Present Worth of Capital, Initial Administration Overheads , and FIT/SIT	$105.20

FTX1 (Basic Tax Liability)

1.	Composite Income Tax Rate (FIT & SIT)	34.00%
2.	Fraction of Debt	39.44%
3.	Debt Rate	9.81%
4.	Cost of Money (ROI)	11.25%
5.	FTX1 Factor (Ln1/(1 - Ln1))(1 - ((Ln 2)(Ln 3)/Ln 4))	0.33798225

Salvage

I. Cost and Salvage Value of Equipment and Buildings (Taken from Investment and Cost Data Summary)

3.	Total Material Cost	$46.68
	Salvage Factor	3.00%
	Salvage	$1.40
	Removal	$0.00

Total Investment

II. Installation Cost (Taken from Investment and Cost Data Summary)

12.	Total Installed Cost	$98.63

Present Value of Book Depreciation

PMT = (Total Investment - Salvage + Removal) / Book Life	
= ($98.63 - $1.40 + $.00) / 7 years	$13.89
i = Cost of Money	11.25%
n = Book Life in Years	7
PV = Present Value	$64.93

Net Investment

IV. Net Investment (Taken from Investment and Cost Data Summary)

16.	Total Net Investment	$97.97

FTX1 (Basic Tax Liability)

(Net Investment - Present Value of Book Depreciation)(FTX1 Factor)	
(($97.97 - $64.93) * .33798225)	$11.17